

## High cost of doing business in the boom state

*One of the outstanding features of the last boom period in Australia was the distinction between the economy that existed here in WA and that which operated in the rest of the country.*

The much quoted “two speed” economy was a constant theme over a number of years leading up to the global financial crisis of 2008. WA’s economic performance was more closely aligned to that of China than Australia. The other standout feature during that period was the historic low unemployment rate in WA, which dropped to 2.8%.

WA is now careering into another period of economic growth, potentially the strongest and most prolonged in our history. Latest figures show the WA economy is growing at more than 9%, which is remarkable given the poor economic performance of most of the world’s major economies. Once again we are seeing the emergence of a two speed economy with the west clearly outperforming the east. What we are also witnessing in WA is the development of our own internal two speed economy with those businesses directly linked to the resource sector reaping the benefits while businesses outside the sector struggle to survive in an increasingly tough marketplace. Retail spending is softening, the real estate market has slowed significantly and consumer confidence is waning. These are not hallmarks of a boom economy.

Much of the current debate is focussed on impending labour shortages and there is no doubt that labour is both harder to find and more expensive. But from a small business perspective there are several areas which are causing more hardship than staffing issues alone. The costs of running a business in WA are significantly higher than in other states and WA is fast becoming uncompetitive when compared to our eastern states counterparts. The significant increases in utility charges, such as power and water, are hurting business. Add to this the high costs of business taxes, rent and rates and it takes careful cash flow management to get through with a profit.

What WA businesses need now is proactive and affirmative action from the State Government to help them. “Fiddling” with retail trading hours does not help most small businesses. What will help is a strong plan for the future, particularly in the areas of payroll tax and stamp duty and further reducing the burden of red tape that plagues business here in WA. Premier Colin Barnett did start early to address the issue of reducing red tape but unfortunately the process takes far too long and many businesses will close while waiting for change.

### *Competitive tax rates*

Successive State Governments have argued that payroll tax can’t easily be reduced and, with the exception of the one-off rebate on payroll tax last year, there hasn’t been a reduction in this tax for several years. The rate of payroll tax in WA is set at 5.5% and this takes effect when payroll exceeds \$750,000 per annum. This means that the average employer can only employ 12-15 employees on the average wage before they trip over the payroll tax threshold.

By contrast, nearly all other mainland states have progressively reduced their rate of payroll tax. In NSW, the rate will be reduced to 5.45% in January 2011. Queensland has a threshold of \$1m and a rate of tax set at 4.75%. Victoria has dropped its rate from 5.15% to 4.90% and this will reduce to 4.85% if the government is re-elected. In South Australia, the rate has been reduced six times since 2001 and stands at 4.95%.

It begs the question that if these states, the majority of whom don’t benefit from large royalty payments from the resource sector, can afford to reduce payroll tax, why can’t Western Australia?

WA also has the highest average wage rate in the country, not by choice but through circumstance, and this only adds to the argument to do something to assist the business community. I have previously suggested that the rate should, at least, be reduced to 5% and that the threshold should be increased to \$1m, although there is now more of an argument to set the threshold at \$1.2m. This would at least provide much-needed flexibility for employers to pay more to existing staff to keep them or increase the size of their workforce to meet demand without having to fear tripping over the threshold.

WA’s unemployment rate is 4.7%, compared to 5.4% nationally, and it is clear that labour supply will tighten and as such the cost of labour will also rise. The MTA is urging the Premier to look closely at the rate of payroll tax and provide a more competitive marketplace for our business community. Payroll tax is a key issue for the MTA and we will continue to lobby the State Government to have a fairer, more competitive rate established that aids employers not punishes them for creating employment opportunities.

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There is also an urgent need to review the State's stamp duty rates as again WA has the highest levels of duty in the country, once more placing us in an uncompetitive position. A good example is the stamp duty that applies to the motor industry. In WA, the top rate for vehicles over \$50,000 is 6.5%, the highest in the country. The next closest is NSW with a rate of 5% for vehicles over \$45,000. Victoria has a rate of 2.5% for vehicles up to \$57,000, after which the rate rises to 5%. South Australia has a flat rate of 4% and Queensland has a rate which sits at about 3.5%. The question for the State Government is why are West Australians being hit so hard when purchasing cars? This tax does not just impact on the general consumer but is also a hit on business, once again increasing the cost of doing business in the boom state.

#### *More services to help members*

The MTA is concerned about the business environment here in WA and we are working to ensure that our members have the necessary services to assist them to operate profitably regardless of economic circumstances. On that basis, the MTA is introducing additional services over the next few months to help members. We have already entered into a strategic alliance with the ISA Group to help members looking to employ skilled labour from overseas. ISA has started working with members and generally can have skilled staff in place within 12 weeks.

We have also started working with industry partners, including MITA, Car Craft and the Engineering and Automotive Training Council, to look at ways to improve the numbers of young people entering the industry on apprenticeships and traineeships. There is an urgent need to reverse the trend of declining numbers of young people entering the industry, particularly in the body repair sector where we are experiencing significant skill shortages. Over the next few months this group will develop strategies that will have a positive impact on addressing the skill shortages and allow for a more effective planning process to determine future skilled labour needs.

The MTA is also developing a small business assistance program which will include a business assessment service, a series of business development workshops and a mentoring service. The key feature I saw during the last boom was that those businesses who sought assistance and looked critically at their business were the ones who survived the best. The service will also include a human resource component where we will be able to assist you with strategies to improve recruitment and retention as well as with basic human resource planning. If you are interested in these services contact your Division Manager or email me and we can discuss your needs further.

## **Changing of the Guard**

Gus Irdi and his team have provided MTA members with legal advisory services over the past 11 years. Gus has championed the cause of many members and been of invaluable assistance to both the membership and the MTA. Unfortunately, all good things must come to an end and Gus advised me that he needed to focus the business on other areas and ceased providing services to members at the end of November. While it is disappointing to lose Gus, we have been very fortunate to have Arns & Associates take on the role. Paul Arns is Director of Arns & Associates and he, along with his team, is ready and willing to provide the same high level of service that our members expect. Paul has in fact been working with Gus Irdi in assisting members for several years and is well versed in the needs of our members.

I would like to thank Gus and his team for the outstanding service to the MTA over the past 11 years.

## **Motor Industry Foundation**

I am very pleased to advise members that I have been appointed to the Board of the Motor Industry Foundation. Members will be well aware of the outstanding work the Foundation undertakes in assisting families who desperately need a helping hand. Through members' generosity, the Foundation now has 20 vehicles on the road, placed with families who had no other means of getting transport for their ill and infirmed family members.

The Foundation quite frankly runs on the smell of an oily rag. It receives no Government assistance and is solely reliant on the motor industry for its funding. The Foundation is also extremely fortunate that people like Colin Rockman give up their time freely to keep the show on the road. It has been pleasing that many in the industry have responded to my Member Alert calling for a Christmas Donation and if you haven't had time, please consider this as a very special gift for families in need. The Foundation has made a submission to the State Government for financial assistance and should this be successful the work of the Foundation will grow substantially, resulting in many more families receiving much needed assistance.

As this is the last edition of Motor for the calendar year, I wish all members and their families the very best for the Christmas period and hope that you all have a strong and prosperous 2011.

*Spreading the Christmas cheer, page 6*